

# Challenging Times Demand Our Best

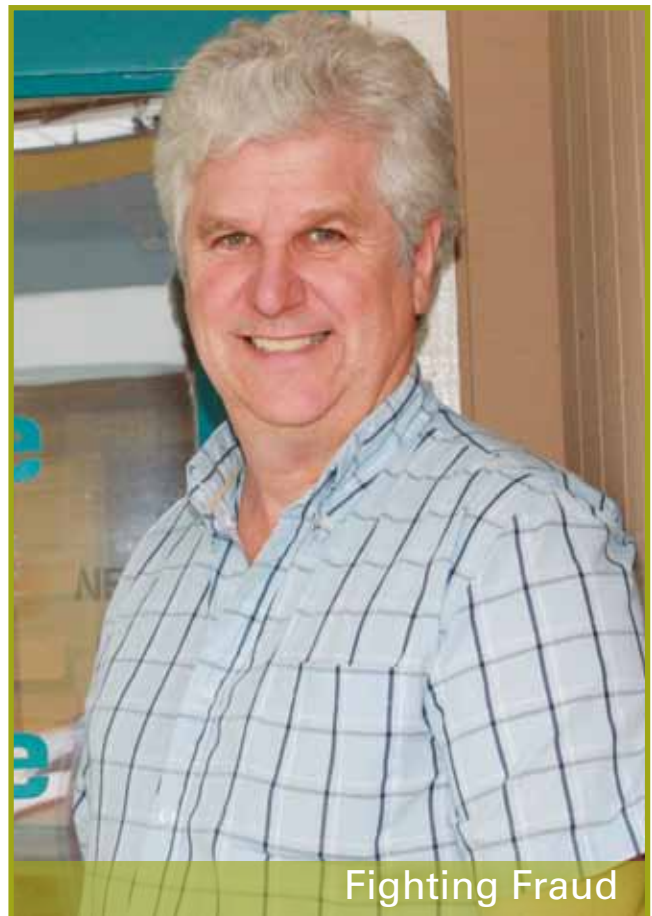
*How L&I is making changes, both big and small,  
to better serve our customers and operate efficiently*



Putting Customers First



Cutting Costs



Fighting Fraud

# Challenging Times

- It is no secret that Washington State and the nation are facing challenges not seen since the Great Depression.
- We are better positioned than most states to emerge more quickly from the current economic downturn.
- State agencies must do their part to alleviate the budget shortfall and find new ways to do more with less.
- The Department of Labor & Industries (L&I) is cutting costs, improving service and fighting fraud—and more changes are coming.

*Washington State enjoys an enviable reputation for its business climate. However, despite the potential to emerge strongly from the recession, our state's path to recovery will be bumpy. Budget challenges will be in place for another 3 to 4 years while the economy recovers. Just as individuals and businesses must watch what they spend, government must reduce cost, make operations more efficient, and rethink services.*

*This section explains how the economy has affected L&I's services. In the sections that follow, we describe changes we have made and those to come.*

## Economy Affects Services

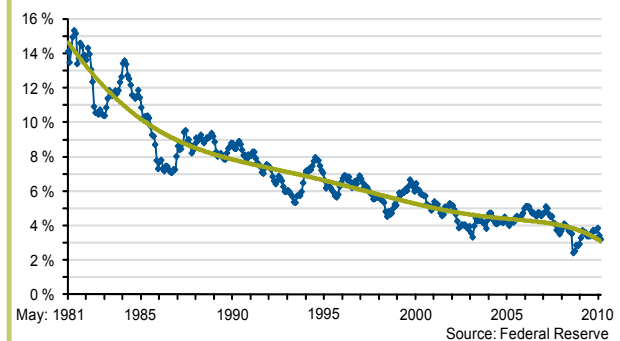
### Workers' Compensation (Industrial Insurance)

One of the worst aspects of economic downturns is that they tend to create additional costs when people can least afford to pay them. This is particularly true of workers' compensation insurance. When times are good, premiums are lower. When times are bad, the opposite is true.

Five main factors have contributed to an increase in the economic burden of workers' compensation insurance during this recession:

- **Fewer businesses to pay the fixed cost of workers' comp insurance.** With fewer businesses and fewer hours being worked, the tax base is shrinking while obligations are increasing. Washington State law requires that long-term claimants and those on pensions receive an inflation adjustment every year (RCW 51.32.075). The Supplemental Pension Benefit Fund provides this adjustment. It is a pay-as-you-go system, meaning funds must be collected every year to cover these costs.
- **Investment income down.** L&I manages investments carefully to preserve income. Yield on these conservative, high-quality investments has historically offset about 25% of the cost of insurance. While our investments have performed well, the long slow recovery means investment yields remain unpredictable. This may be a long-term trend. Looking ahead, investments cannot be expected to offset as large a percentage of the cost of providing workers' comp insurance as they have in the past.
- **Injured workers are staying on time-loss (partial wage replacement) longer.** While fewer claims are being filed due to a combination of fewer hours worked and better workplace safety, claims that are filed are lasting longer. Research by a number of economists indicates that the growing number of workers receiving workers' compensation benefits signals a reliance on disability benefits by workers who had ignored their ailments as long as their job brought them a steady paycheck.

### 10-Year US Treasury Market Yield



- **Medical inflation.** Medical inflation presents a real challenge as we try to maintain access to quality care for injured workers. The costs associated with treating injured workers in Washington State are lower than the national average; however medical inflation continues to rise.
- **Contingency reserves are down.** L&I has drawn on reserves (surplus) to mitigate the increased rates on the state's businesses during the recession. Premium rates will eventually need to return to a level that more adequately covers the true costs of insurance coverage.

## Workplace safety during a recession

When businesses feel increasing pressure to compete in shrinking markets, some may be tempted to cut corners in many areas, including workplace safety. Also, workers may be carrying heavier workloads, such as working additional hours or doing unfamiliar tasks due to cutbacks. Both can lead to injury and accidents. Workers may also fail to speak up about unsafe working conditions because they fear being fired when no other jobs are available.

## Construction compliance challenges during a recession

Economic conditions have had an impact on three L&I programs charged with compliance responsibilities related to construction.

**Underground economy.** Unregistered contractors carry no bond or insurance, putting consumers at risk and unfairly competing with registered contractors who incur these costs. We were forced to eliminate several compliance positions—staff who find and cite unregistered contractors—as a result of state budget reductions.

**Prevailing wage.** Federal stimulus money directed at the construction industry has fueled interest in public-sector construction projects. Construction companies that have not done public work in the past are now competing because privately funded construction activity has yet to recover. This means we are working

with more contractors that are unfamiliar with prevailing-wage requirements. Our workload to educate these contractors has gone up while staffing has not.

**Electrical inspections and compliance.** The decline in Washington's construction industry has resulted in a 20% drop in the number of electrical permits sold and reduced revenue for L&I's Electrical Program by \$3.2 million. This forced a 31% reduction in staffing. Requests for electrical inspections have only dropped by 12%, because of continued demand related to residential remodeling projects. Our challenge is to conduct electrical inspections in a timely manner and to sustain a compliance presence that deters unqualified individuals from illegally performing electrical work.


## Not Business as Usual, Transformation in Process

While you won't see it in the headlines, significant and sustained change management is under way at L&I. We're modernizing the workers' compensation system, simplifying processes and reducing costs.

For example, monitoring prescription-drug use by injured workers, use of generic drugs, and effective treatment utilization all combine to hold down medical costs. L&I's prescription drug costs are less than the national average for workers' comp programs. Technology improvements have dramatically increased access to claim information for workers, employers and health-care professionals, allowing faster decisions and saving them time and money.

But bold moves are required to address the current economic situation and meet the needs of Washington citizens in the years ahead. L&I management and employees are working hard to deliver high-quality service. We must stop doing what doesn't work, employ new service-delivery mechanisms, and keep a laser point on efficiency. Because every dollar counts, we must intensify efforts to stamp out fraud and abuse.





**"The L&I fraud team currently spearheads the battle against the bad actors that constitute the underground economy."**

*— Craig Munson*

## **Fraud affects my business and livelihood**

**Craig Munson, Owner/Foreman, Seattle Floor Service**

Five years ago, I surveyed over 300 flooring contractors with the aid of L&I's contractor look-up database. The data on the website showed the majority of these contractors claimed zero employees. But I knew some of them had employees.

I forwarded this information to the Fraud team at L&I and my concern was met with immediate action. I was also appointed to the Underground Economy Task Force, a joint agency effort between lawmakers and business professionals with the aim to level the playing field for honest contractors.

I've been fortunate to sustain my business for 23 years and provide a good living for my family. For the last two years, however, my bidding pencil has been whittled to a sharp point, drawing a fine line between sustainability and failure while the bad actors who rob the state coffers are leveraging their unrealistically low prices for an ever-increasing portion of the market.

The L&I fraud team understands the stakes are higher now than ever before, and they play to win the war for the law-abiding citizens of this state.

# Fighting Fraud

- Fraud occurs in every society and social institution. It affects private companies as well as state and federal programs.<sup>1</sup>
- Fraud in Washington State's workers' compensation program hurts our economy—honest businesses are undercut by those that don't fairly participate in the system and workers and employers pay more than they should when others claim more benefits than they deserve.
- The Department of Labor & Industries (L&I) is fighting workers' comp fraud and the broader underground economy.

## Targeting capabilities increase with new technology

New state-of-the-art software incorporates IRS data and advanced analytics to identify employers who are not paying workers' compensation premiums or who appear to be reporting significantly fewer worker hours compared to similar businesses. The new system builds upon our existing data exchanges with other programs and agencies to make the cross matches more effective and easier to use.

Portions of the new system will be implemented in September 2010. The system is expected to be fully operational next spring.

## Public tips critical to fighting fraud

The public contributed 800 tips on possible unpaid employer premiums between July 1, 2009, and June 30, 2010, up more than 200 from the previous fiscal year. For the same period, L&I received 1,300 tips from the public for potential worker fraud/abuse, up from 500 the previous fiscal year.

These tips are an important tool in uncovering the three types of fraud that occur in the workers' compensation program.

- **Injured workers who may be inappropriately receiving benefits.** Example: A pensioner who returned to work using his son's social security number came to L&I's attention through an anonymous tip. He was sentenced to four months with work release and ordered to pay \$60,000.
- **Employers who may be underpaying or not paying workers' compensation premiums.** Example: A painting company owner who

egregiously under reported was charged with two counts of third-degree theft. He pleaded guilty, served 30 days on electronic home monitoring and agreed to pay \$212,000 for premiums and penalties.

- **Health-care and vocational providers who may have overbilled or inappropriately billed for services they provide.** Example: An investigation of a language interpreting business uncovered \$1.1 million in billings for services not provided and fraudulent use of claims numbers. The owners were charged with first-degree theft and making false statements.

## Results to date

Return on investment has averaged \$8 for every \$1 spent to operate L&I's Fraud Prevention and Compliance Program. Monies collected are returned to the workers' compensation trust funds.

### Overview of Fraud Program Results

| Revamped Fraud Program started in 2005 | Baseline (FY 2004) | FY 2010   | % Increase |
|--|--------------------|-----------|------------|
| # of Claim Investigations Completed    | 3,149              | 5,789     | 84%        |
| Completed Audits                       | 2,823              | 5,846     | 107%       |
| \$ Identified by Audit                 | \$8.5 m            | \$26.3 m  | 209%       |
| Total \$ Collected                     | \$93.8 m           | \$137.3 m | 46%        |

## Law changes critical to L&I's ability to act on fraud

Legislative changes provided key tools in L&I's ability to fight fraud in the workers' compensation program. (See Page 7 for details.)

<sup>1</sup> Officials in China are investigating a family that may have collected their father's pension for 30 years after he died. The U.S. Government is cracking down on Medicare fraud. SAS, a leader in business analytics software, estimates that fraud costs property and casualty insurance companies \$30 billion a year in the U.S. alone.

## Harder to hide: L&I and other government agencies coordinate to find worker, employer and provider fraud

Examples of coordination include:

- Cross-matches with records such as the New Hire reporting to DSHS, Unemployment Insurance reporting to the Employment Security Department and revenue reported to Department of Revenue.
- Within L&I, we compare wage complaints, prevailing-wage information and safety inspections. Other L&I programs are trained to refer potential issues to the Fraud Prevention and Compliance Program.

## Worker investigations conducted more efficiently

Completing investigations faster stops inappropriate or fraudulent payments sooner. Standardized and modernized surveillance equipment, and electronically routing case reports with all attachments contributed to an 84% increase in completed investigations since the baseline year of 2004.

## 'Boots on the ground' kicks the underground economy

A recent addition to our fraud-fighting arsenal: A small team of investigators sweeping construction sites, including nights and weekends. The team identifies firms that are unregistered, hiding payroll and working under the table. Team results: Audits for \$2.7 million last year, and an additional \$1.1 million in collections from firms that already owed premiums.

## Automated system helps collect unpaid bills by phone

Collection tools now include an automated telephone message system that greatly increases efficiency. A unit of nine people staffing this system resolved over 40,000 cases and brought in \$48.5 million last year.

## New audit system improves efficiency

The redesigned system pulls information from other sources (including other agencies) and automates some analyses. We are able to use staff time more efficiently, doubling audit production compared to the baseline year (Fiscal Year 2004, before the revamped fraud program started).

### FY 2009 Audit Results

| Businesses               | Audits       | Assessments           |
|--------------------------|--------------|-----------------------|
| Registered Businesses    | 5,114        | \$17.3 million        |
| Unregistered Businesses* | 660          | \$8.1 million         |
| <b>Total</b>             | <b>5,774</b> | <b>\$25.4 million</b> |

\* An unregistered business is one that hires employees but fails to open a workers' compensation account.

## Nowhere to hide: L&I and AGO team up to prosecute criminal cases

Since FY 2006, more than 110 cases of alleged criminal fraud by workers, employers and providers have been referred for prosecution. L&I has a 100% conviction rate on completed cases. In 2006, L&I partnered with the Attorney General's Office (AGO) to obtain dedicated special prosecutors who work with L&I and county prosecutors on these criminal cases.

## New developments

In July 2010, L&I launched a blog highlighting the agency's work combating workers' comp and contractor fraud. The blog, called *Nailed*, contains information on major fraud convictions, surveillance video from investigations and links to fraud-related news coverage.

## New Master Business Application to help prevent 'independent contractor' abuses

Starting this fall, new businesses will be asked whether they intend to use "independent contractors" in addition to or instead of hiring employees. L&I will reach out directly to these firms and educate them on laws and rules regarding independent contractors. This prevention strategy will mean more businesses sign up for workers' compensation coverage when they open. The intent is to hold down rates without requiring compliance audits years later.

## New review uncovers provider fraud, billing errors

Using dedicated staff and special technology and software, L&I will look broadly at thousands of medical providers that bill L&I for treating injured workers. This review will identify potential fraud cases for in-depth evaluation so investigation resources can be used efficiently. The review, which begins in October 2010, also gives us an opportunity to work with providers who make billing errors (as opposed to fraud) so they don't occur again.

## Move toward electronic payments under development

L&I is working with the State Treasurer's Office to put into place the ability for delinquent debtors to pay L&I through electronic withdrawal from checking accounts when they are on a payment plan, or through debit or credit card payments.

## Summary of key legislative changes

### 2010: SHB 2789

- Authorizes issuance of administrative subpoenas for purposes of agency investigations of underground economic activity.

### 2009: SHB 1555

Key provisions:

- Establishes industrial insurance premiums as a priority on public works retainage.
- Requires L&I to educate employers on workers' compensation reporting requirements, in particular, independent contractor issues.

### 2009: SSB 5613

This legislation authorized L&I to issue stop work orders to contractors that do not have any industrial insurance coverage.

### 2008: HB 2955

This legislation ensures L&I's can access criminal history information.

### 2008: 2SSB 6732

- Created civil and criminal penalties for falsifying information on a contractor registration application.
- Prevents businesses that commit fraud from bidding on public works contracts.
- Shrinks the underground economy through ongoing consumer education media campaigns.

Funding provided for:

- Expanded "boots on the ground" construction fraud team and new audit resources.
- Dedicated resources to pursue criminal fraud cases at the Attorney General's Office.

### 2004: ESHB 3188

- Claim fraud is now defined in statute, so L&I can more readily pursue civil and criminal cases.
- L&I can now pursue debts to a new firm that takes over a business.
- L&I can hold corporate officers liable for unpaid workers' compensation premiums in some cases.





**"You guys just really made it easier to breathe through this."**

*— Jennifer Rivera*

## Things went from bad to worse . . . and L&I was able to help

Jennifer Rivera, Owner, Petdaddy Dog Grooming Spa (right) and  
Susan Rusch-Barnett, L&I Revenue Agent (left)

In the wee hours of July 7, a small pickup smashed through five years of Jennifer Rivera's hard work and passion.

At 1:30 a.m., no one was inside "Petdaddy", Jennifer's popular dog grooming spa in Seattle's Green Lake district. There were no worker injuries, so Jennifer didn't think she would need help from L&I. The wreckage in front of her consumed her thoughts as she watched crews sweep away broken glass and board up her storefront.

Fighting back her tears, she told a KING-TV reporter on the scene, "I've dealt with a lot in my life, but this is pretty emotional, pretty rough because I built this with my own hands and my own time and money." She told customers she expected to reopen in a couple of weeks.

A month later, with bills mounting and no revenue from her shattered business, she wrote a letter to L&I. She was caught in the middle of disputes over insurance and

requirements for rebuilding her store, and it wasn't clear when she would open again. She asked for help with workers' comp premiums that she couldn't pay.

Susan Rusch-Barnett, an L&I revenue officer in Seattle, responded immediately.

"Someone needed to give Jennifer a break, and we were able to do it," said Susan. "Our Employer Assistance Program helps business owners strapped by the recession, but it works for situations like this, too."

Susan arranged to delay Petdaddy's workers' comp premiums until the business is up and running again, and then spread them out over monthly payments until the premiums are paid off. Late penalties and interest will be waived.

But Susan didn't stop there. She also helped Jennifer prepare for potential wage claims from employees, and helped to arrange forbearance on state taxes and unemployment insurance while the business is down.



# Putting Customers First

- The Department of Labor & Industries (L&I) serves a broad customer base, administers more than 12 programs and operates 20 local offices.
- Leadership in areas such as dedicated assistance to small business, “Plain Talk,” and user-friendly Web design provided the foundation for greater emphasis on customer satisfaction throughout the agency.
- L&I’s commitment to customer satisfaction is center stage in the agency’s new strategic plan.

## How We Help Customers Today

### Immediate support for severely injured workers and their families

Workers hospitalized with severe injuries, such as burns, amputations, paralysis or head injuries, must cope with life-changing issues. So do their families. L&I’s occupational nurse consultants provide caring and personal service to these workers and their families. They answer questions about the workers’ compensation claims process and what to expect. They also authorize needed services, including durable medical equipment or home health services. We recognize that this personal attention can help families cope during a particularly difficult time.

### Behind on workers’ comp premiums? Try EAP

To help financially distressed employers during these hard times, L&I will arrange a payment plan for workers’ compensation premiums. The Employer Assistance Program (EAP) has already helped 4,800 employers catch up on their overdue premiums.

The EAP allows an employer with a good payment history to ask for a 90-day “same as cash” payment plan. No interest. No penalties. L&I also offers payment plans to employers with less-than-perfect payment histories if they can show that the recession significantly hurt their business.

L&I started the Employer Assistance Program in the spring of 2009, during the worst part of the recession, after discovering about 13,000 employers were delinquent on their workers’ comp premiums – 60% of whom had accounts that had been in good standing for a long time.

### Small business liaisons—L&I’s help center for employers across the state

L&I’s small business liaisons are dedicated to helping business owners find what they need when they need it. They respond to questions and concerns, speak to business groups around the state, and make sure that the small business owner’s voice isn’t lost in the shuffle.

Since the office opened in 2006, more than 4,000 small businesses have found help quickly on questions about workers’ comp insurance, workplace health and safety, wage-and-hour rules, contractor registration and other programs L&I administers.

### Clear communication respects customers’ time, gets results

As a pioneer and leader in “Plain Talk” within Washington State government, we continue to develop forms, form letters, and instructions that are as clear and jargon-free as possible. Even when the message is tough for a customer to hear, our priority is to explain clearly and respectfully the steps they must take to resolve a problem or pay a bill.

For example, to help save our customers time and money, we recently simplified the form and instructions employers use to pay their quarterly workers’ comp premiums. We even enlisted their help to make sure the instructions really were clear. Another project removed much of the confusion from a high-volume, late-payment notice. Instead of “legalese,” it focused on the “how-to” steps business owners could take to prevent court action. In fact, even though the recession worsened in 2009, more employers responded to our notices and worked with us. At year’s end, our no-response rate dropped by 10%.

## Help customers quickly find the information they need

We bring the voice of our customers into our website and Web applications by seeking customers' input before we finalize navigation and design. This "usability" approach helps us view our information from the users' perspectives and organize it so users can find what they need quickly. In addition to better customer service, usability helps control costs because customers can successfully transact business without needing to call or write us, freeing staff to provide other services.

## Filing quarterly reports online

In July of this year, 77,542 employers filed their quarterly workers' compensation insurance premiums electronically, a 21% increase over the same quarter in 2009. About 45% of the 172,000 businesses covered by Washington State's Workers' Compensation Program now pay electronically.

Employers who file electronically save time because the electronic system reduces errors and the need to amend quarterly reports. They can choose between options, depending on their preferences:

- **Quick File**—requires no password and allows payments to be made with an E-check option that doesn't store bank information.
- **Deluxe File**—allows employers to start and save a report to complete later, pay online and choose the date payment is drawn from their bank account, and access other services.

E-filing also frees up L&I staff to help employers identify ways to reduce their insurance costs and ensure that all employers are paying their fair share.

## Developments in Progress

### Early Claim Solutions means faster, better service

The goal of Early Claim Solutions is to reduce delay at the very beginning of the workers' compensation claims process. The goal is to help injured workers recover and return to employment as soon as safely possible, avoiding long-term disability and reducing costs for their employers.

Two key developments are:

- **Filing claims online or by phone.** The current reliance on filing paper reports creates a long lag at the beginning of the claim process, and in many claims, causes missed opportunities for appropriately timed services. Northwest Washington will be the first geographic area to have online or phone filing available, in early 2011. The entire state will be on board by 2012.
- **Streamlining intake process for time-loss claims.** Early management of new time-loss claims is crucial to preventing long-term disability. We are changing the way we assign specialized services, such as early-to-work or safety consultations, to benefit both workers and employers. These changes, including greater attention to coordination among workers, providers and employers, are based on best practices from the Centers for Occupational Health and Education. (See Page 13.)

## Can 'paperwork' be a tool that improves customer service and cuts costs?

We don't typically think of "paperwork" as a tool we can use to improve customer service, cut costs, and even improve health care. But L&I's Medical Partnership research project is planning to do just that. When doctors send L&I claim managers fast, clear medical updates on injured workers, claims process faster. But how can we help doctors understand exactly what we need to authorize benefits or conclude claims promptly? And how can we make it easy for them to deliver it, so information isn't delayed?

With a budget of less than \$3,000 and a small group of existing staff, the project team traveled the state in the spring of 2010 to observe a range of providers as they filled out L&I paperwork. They also interviewed health-care staffs to look for ways to streamline communications. Finally, they conducted "usability tests" with a number of L&I claim managers, to see how they requested medical updates, and how easily they "used" medical information once they received it.

L&I expects to use the team's recommendations to simplify these critical exchanges of medical

information. We also plan to carefully track the expected cost savings and reduced worker disability, results that should come in a system with fewer information roadblocks and less lag time.

## Transformation—Becoming a Leader in Customer Satisfaction

L&I is committed to being a leader in creating satisfied customers. What does that mean for L&I? When your job is to enforce safety regulations or decide what workers' comp benefits a person will receive, you cannot always give your customer what they want. You *can* make it easy to do business with the agency. You *can* understand your customer and strive to discover and meet their needs every time you talk with them. And, you can make sure that each citizen who interacts with L&I is treated with courtesy and respect.

L&I customer surveys show that the agency does deliver quality customer service. For example:

- In a late 2008 scientific survey, 77% of employers and 75% of injured workers said they were satisfied with their overall experience on their workers' comp claims.
- In a 2004 exit survey of customers at front counters L&I local office, 87% of customers said they were "very satisfied" with overall service and 91% said they were "very satisfied" with the level of courtesy shown to them by L&I staff.

We can take L&I customer service to a new level, learning from companies and agencies recognized for doing it best. L&I is building an agency-wide customer service model to consistently measure and foster customer satisfaction, structured around these actions:

- Research the needs and experiences of the people we serve, using that information to develop and monitor key measures of customer satisfaction. This research includes candid input from customers and insights from L&I staff who regularly serve them.

- Immerse L&I staff in regular stories about our customers, who they are, what they need, and their experience of doing business with us. This creates a clearer understanding of how customer service (what we do) connects to customer experience (what happens to the person or business as a result).
- Create constant customer feedback using focus groups, surveys, call monitoring, and follow-up contacts with customers. These will tend to focus on specific products and services so that responses help us to monitor trends, maintain customer satisfaction standards and develop improvements that are meaningful to customers.
- Measure customer satisfaction with the quality of *what* service or product we delivered and *how* we delivered them. Essentially:
  - Were we friendly, respectful and professional?
  - Were we efficient?
  - Did we follow through to make sure our work was accurate, thorough, and usable by the customer?
- Provide L&I managers, supervisors and staff with advanced customer satisfaction training based on the practices of the best customer service organizations in the Northwest and worldwide. Set expectations based on those practices and include them in staff evaluations. Hire and promote people who excel in customer satisfaction.
- Use Lean methods to eliminate process steps that don't create value for the people we serve. (See Page 14 for more information about Lean projects at L&I.)
- Benchmark ourselves against the best customer service providers in the business.



**"The Claim & Account Center is a great time-saver for the person working their Accounts Receivables."**

**— Deborah D. De Veaux,  
Patient Accounts Manager**



## Medical practice sees big benefits from L&I

Patient Account and Business Staff (front to back):

Deborah D. De Veaux, Jill Martin, Mary Ann Keith, Terry Smith

With more than 35,000 patient visits and 2,000 surgeries per year, the busy Puget Sound Orthopaedics and Lakewood Surgery Center knows what insurance paperwork is all about.

The center, owned by *Proliance Surgeons*, serves many injured workers—about 25% of its business comes from individuals injured on the job. That means the center's 10 surgeons, four physician assistants, and one physiatrist treat everything from broken fingers, to torn rotator cuffs, to backs damaged by lifting heavy objects.

Because L&I's workers' compensation insurance pays these bills, the billing staff has a secret weapon for reducing paperwork hassles—L&I's online Claims & Account Center, launched in 2005 after careful customer research and testing.

This tool allows the authorized doctor and staff to instantly access medical and billing information for their L&I patients, and e-mail quick questions to claim managers. Fast access

to information and authorizations can speed patient care as well as claim processing, which saves time and money for everyone.

"I love having the ability to send my questions via a secure e-mail to the claims manager at L&I," said Deborah D. De Veaux, the center's Patient Accounts Manager.

"It's easy to maneuver from page to page," said Terry Smith, the center's Business Office lead. "Going online, we are able to go right to the patient's payment information in one or two minutes. Going through the paper voucher can take 10 to 15 minutes."

Smith added: "Before we had this tool, the consequence of not knowing whether we had authorization was huge. We would have to ask retroactively by phone or fax, which could take days. Now our claims can be authorized and paid in a timely manner."



# Cutting Costs, Improving Efficiency

- The Department of Labor & Industries (L&I) is making business changes and process improvements to reduce operating costs, eliminate waste and deliver better service.
- L&I and all of state government must adapt to today's struggling economy and transform for the long-term benefit of those we serve.
- L&I is expanding the use of Lean methods, which focus on eliminating work that does not add value for the customer, to bring about sustained service improvements and cost savings.

## What We Are Doing Today

### Processing claims faster

The previous section, "Putting Customers First," describes the customer-service improvements under way in Early Claim Solutions (Page 10). In addition, they will reduce costs.

Studies show outcomes for injured workers improve and costs come down when workers' compensation claims are reported and processed quickly. We made a number of improvements to our claims process that we tested in a pilot project with some employers in the northwest region of the state. Because we are doing the early paperwork on these claims faster, we are contacting employers sooner when their workers are injured. This has increased the number of injured workers returning to work by as much as 50%. These changes will save millions of dollars in operating costs. They will also help injured workers because every day of missed work reduces a worker's lifelong earning capacity. L&I will expand this approach statewide by 2012.

### Saving \$1 million in mailing expenses

L&I has saved \$560,000 on postage costs since July 2009. We are more than half way to our goal of saving \$1 million by July 2011. Savings come from negotiating lower fees, leases and rebates with vendors and other agencies, carefully assessing our mailing needs and modifying contracts and equipment leases, discontinuing ineffective mailings, and streamlining internal mail delivery.

Even small savings can make a difference over time. We are switching from manila-colored envelopes to white envelopes for mailing checks, which will save about \$22,000 a year when fully implemented.

### Expanding occupational health best practices

Some of the results come from changes implemented over time. In 1997, L&I teamed with physicians and others to increase occupational health best practices among health-care providers treating injured workers. Today, more than 1,500 health-care providers are participating in Centers of Occupational Health and Education (COHEs). Participating providers in Eastern Washington, Renton, Everett and Seattle receive training and incentives to bring injured workers back to health and employment faster.

COHEs have reduced time lost from work by an average of four days, lowered claims costs by an average of \$480 in the first year after an injury, and reduced the time it takes L&I to provide benefits to injured workers by 13 days. In the first year alone, two COHEs saved about \$8 million compared to control groups. These savings doubled when the claims were followed for an additional four years. We are working to expand COHE to more areas of the state.

### Controlling health-care costs—four examples

- **Utilization review:** The utilization review process compares requests for medical services (utilization) to treatment guidelines that are deemed appropriate for such services and includes preparing a recommendation based on that comparison.
- **Streamlined approval:** Nearly 70% of the medical providers who treat injured workers and consistently meet our guidelines are able to use our streamlined approval process, saving them

time and money. In just over two years, L&I has also saved more than \$2 million.

- **MRI approvals:** We just started a similar streamlined process for approving MRI's for clinics that consistently meet our guidelines. The faster process is saving L&I \$22 for every MRI request. This will save time and paperwork for providers, get injured workers the care they need faster and, over time, save millions of dollars.
- **Expediting care for seriously injured workers:** L&I partnered with Harborview Medical Center to reduce the time to process claims, approve care and pay medical bills for seriously injured workers from one month to three days.

### Removing barriers to excellent care—three examples

- **Reducing paperwork for doctors** — to reduce paperwork for physicians and increase the uniformity of medical data received by L&I and employers, we combined five forms that physicians need to fill out for injured workers into one.
- **Paying medical providers faster** — by improving our bill payment process, we reduced the time it takes to pay medical providers from 48 to 18 days. And, if they bill us electronically, it takes only 12 days for them to get paid.
- **Orthopedic and Neurological Surgeon Quality Pilot** — to improve workers' access to high-quality surgical care, L&I developed this pay-for-quality initiative with input from Washington surgeons. Participating surgeons receive incentive pay for demonstrating high quality and efficient patient care.

To determine the appropriate level of incentive pay for individual participants, every six months L&I's pilot team assesses each surgeon's aggregate performance on a set of six quality indicators. Surgeons meeting or exceeding all performance thresholds are eligible for Tier 3 incentive pay (the highest level), while those who are unable to meet minimum thresholds risk losing incentive pay privileges.

### Clear processes and communication reduce and avoid costs

We cannot emphasize enough the importance of clear communication with our customers. When they misunderstand information, or ignore it because they misunderstand it, they may experience delays in service or payment, or they may not comply with legal requirements. In turn, L&I experiences costly administrative delays.

For example, after revamping and simplifying our instructions and responses to citizens requesting public records, phone calls dropped by more than 95% in the first year. Now response time averages 6 days instead of 12 and we achieved more than \$110,000 in annual savings.

### Transformation—Using Lean methods to cut costs, improve service

In 2009, L&I began incorporating Lean methods to streamline business processes. The Lean approach is used by The Boeing Company, as well as top Northwest health organizations such as Group Health Cooperative and Virginia Mason Hospital and Medical Center. Lean focuses on reducing the time it takes to provide services by eliminating work that does not add value for the customer.

Lean's proven cost-cutting approach has become the way we work at L&I. While projects will eventually involve every division and program in the agency, the majority of the first projects are concentrated in the workers' compensation program.

We have already launched eight projects and plan to start many more over the next 3 to 5 years. By June 2012, we will have 40 Lean projects under way that are expected to save \$2.5 million.

### Lean projects get results

- **Faster and more productive.** While a handwritten paper "report of accident" initiates a workers' comp claim,<sup>2</sup> once L&I receives the

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<sup>2</sup> For a discussion of online and phone filing, see "Early Claim Solutions means faster, better service," Page 10.

report, it become “paperless.” The faster that happens, the faster we can enter information from the report into our mainframe computer and make it available to the claim manager, employer account manager, and online Claim and Account Center.

This Lean project eliminated steps in handling the paper reports by “faxing” them directly into the imaging system for data entry. We streamlined a process that used to take several hours down to about 30 minutes. Plus, because Claims Initiation staff members are viewing an electronic image they can magnify, accuracy and productivity improve. (Some of that handwriting is hard to decipher!)

- **Training new claim managers.** Apprentices training to become claim managers are required to submit their work to an experienced claim manager/coach and show they meet the training standards in specific areas. This Lean project improved the consistency and accuracy of the reviews and reduced the time required to check the work. As a result, coaches were able to increase face-to-face mentoring time with apprentices by 46%.
- **Protests processed faster.** This Lean project developed standards and a tracking system to ensure that responses to protests were fact based and legally defensible. We have improved accuracy with the tracking system. By removing unnecessary steps, we expect to cut response time in half.

### **Key Lean milestones:**

- Train L&I staff in Lean principles, 2010-2011.
- Involve executives and senior managers to accelerate Lean changes, 2011-2012.
- Drive Lean improvements through strategy direction and a scoreboard, 2012-2014.
- Conduct 80 projects by June 2014.

# How to Report Fraud

The people of Washington State can help stop workers' comp fraud by reporting situations that may be fraudulent and letting others know how to report. These leads will help the Department of Labor & Industries track down and stop workers' comp fraud.

- Fraud reporting hotline: 1-888-811-5974
- Fraud reporting website: **[www.Fraud.Lni.wa.gov](http://www.Fraud.Lni.wa.gov)**

Employers can help detect workers' comp and unemployment insurance fraud by reporting newly hired workers at **[www.dshs.wa.gov/newhire/](http://www.dshs.wa.gov/newhire/)**.